Economics 231: Public Finance

Syllabus

Fall 2020

Professor Hanming Fang

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COURSE LOGISTICS:

Class Meeting Time & Location: Tuesday and Thursday 1:30-3pm
Virtual, real time lecture via Zoom, with recordings.
Office Hours: Monday 7-8:30pm

Teaching Assistant: Sajad Ghorbani (Full TA Duty) and Desen Lin (Half TA Duty)
Email: sajadgh@sas.upenn.edu and desenlin@sas.upenn.edu
Sajad’s Office Hours: Tuesdays and Thursdays 6-8pm, US EST (any changes will be announced on Canvas); and by email appointment
Desen’s Office Hours: Fridays, 9-11am, US EST; and by email appointment
TA Review Sessions: TBA with the same Zoom link as office hours Zoom link.

COURSE DESCRIPTION:

Prerequisites: Econ 101 (intermediate micro theory), Math 104 (Calculus, Part I) and Math 114 (Calculus Part II) or Math 115 (Calculus Part II with Probability and Matrices). Econ 103 (Statistics for Economists) is also recommended.


Available at Penn Book Store or can be purchased online. Note: Both the 5th Edition (2016) and the 4th edition (2013) of the book are serviceable substitutes. A copy of the fifth edition is also reserved in Van Pelt Library, though I am not sure whether it is electronically accessible.

COURSE SYNOPSIS:

The main goal of this class is to develop a set of tools for analyzing the role that government plays in the economy and the lives of its citizens. In particular, we will consider some reasons for government intervention in a market economy and study the impact of government expenditure programs and taxation systems on the welfare and behavior of its citizens. The course will cover a wide range of issues in public finance with a focus on current policy debates and issues. Topics covered will include the common use of natural resources, the environment, public goods, education, health care reform, social security, public assistance program, and taxation.
**CLASS CANVAS:**

We will use the class Canvas site: [https://canvas.upenn.edu/courses/1530294](https://canvas.upenn.edu/courses/1530294) for all postings of course materials, including syllabus, announcement, lecture notes, quizzes, discussions, problem sets/solutions, and practice exams.

**ASYCHRONOUS ACTIVITIES:**

While the lectures will be delivered in real time virtually via Zoom, I will record the lectures and post it on Canvas. Recognizing that we are in an extraordinary learning environment due to the pandemic, I also ask my TAs to set up and manage a **Canvas Discussion Board** that students can ask questions and the answers by TAs or myself can be preserved on the board to benefit everyone. We will also use the Discussion Board to share our views of the current events, a link to an interesting article, etc. We will also witness a general election in Fall 2020, and many of the issues we discuss in this class will feature heavily in the election. I hope you will enjoy the class.
COURSE REQUIREMENT AND GRADING POLICY

Students are required to read the corresponding book chapters and/or articles before each lecture. The course grade will be based on the following (The number in parenthesis reflects the weightings in the final grade):

- Short quizzes (about 10) scattered throughout the semester (20%), four problem sets (20%), two midterm exams (during class time) (20% each), and a short (6-10 pages) term paper (20%).

- The first midterm exam will be given online on October 20, Tuesday;
- The second midterm exam will be given online on December 8, Tuesday;
- The four problem sets will be dispersed at regular intervals throughout the semester and will include problems indicative of those that will be used on the exams.

Please make sure that you schedule your travels, including job interviews, to avoid the exam dates. The policy regarding missing exams is described in Rules #8 and #9 in the class policy section of the syllabus.

- Class participation is mandatory, unless properly excused. Additional credit may be given based on participation in the general class discussions on some marginal cases.

- As mentioned below in class Rule #1, if a student repeatedly fails to attend classes without proper excuses, he/she will receive a lower grade when I assign letter grades.

Grades for the class will mainly be based on these requirements in roughly the following proportions:

- Problem Sets (4) (equally weighted) 20%
- Short Quizzes (about 10) 20%
- First In-Class Midterm Exam (October 20, Tuesday) 20%
- Second In-Class Midterm Exam (December 8, Tuesday) 20%
- Term Paper (Due: December 11, Friday) 20%

The median grade for the course will be B+, thought the exact distribution of grades varies from year to year. A+ may be awarded to students who achieved exceptional performance in the class.
CLASS SCHEDULE AND READING ASSIGNMENTS

Part I: Introduction and Background

[1]. September 1: Background/Introduction to Public Finance
   Reading: Chapter 1

   Reading: Chapters 2 & 3

Part II: The Economics Basis for Government Activity

[3]. September 8: Externalities: Problems and Solutions
   Reading: Chapters 5
   Additional Readings:

[4]. September 10: Externalities in Action: Environmental and Health Externalities
   Reading: Chapter 6

   Reading: Chapter 7.
   Additional Readings:

   Reading: Chapter 9.

[7]. September 22: Public Choice and Political Economy, continued; with discussions related to the general election.
   Reading: Chapter 9.

Part III: Selected Issues of Government Expenditures and Policy in the United States

[8]. September 24: State and Local Government Expenditures
   Reading: Chapter 10
[9]. **September 29**: Education  
Reading: Chapter 11

[10]. **October 1**: What is Social Insurance?  
Reading: Chapter 12  
Additional Readings:  
• Martin Feldstein: Rethinking Social Insurance. NBER Working Paper

[11]. **October 6**: Social Security  
Reading: Chapter 13  
Additional Reading:  

[12]. **October 8**: Social Security, continued; and discussion about the implications of population aging, automation, etc on social security.  
Reading: Chapter 13.

[13]. **October 13**: Other Social Insurance Programs: Unemployment Insurance, Disability Insurance etc.  
Reading: Chapter 14

[14]. **October 15**: In class review session.

[15]. **October 20 (Tuesday)**: First In-Class Midterm (covered chapters up to Chapter 14)

[16]. **October 22**: Economics of Insurance, Health Insurance  
Reading: Chapter 15

[17]. **October 27**: Health Care System in the US and Health Care Reforms  
Reading: Chapter 16  
Additional Readings:  
• John H. Cochrane, After the ACA: Freeing the market for health care. October 18, 2012

[18]. October 29: Income Distribution and Welfare Programs
Reading: Chapter 17
Additional Readings:
• Welfare reform A patchy record at 20, The Economist, August 20, 2016
• Poverty in America: No money no love, The Economist, August 20, 2016

Part IV: Government Revenue, Government Debts & Economics of Taxation

[19]. November 3: Introduction to Taxation
Reading: Chapter 18
[20]. November 5: Theory of Tax Incidence
Reading: Chapter 19
[21]. November 10: Theory of Tax Incidence, continued and discussions
Reading: Chapter 19
[22]. November 12: Deadweight Loss from Taxation and Theory of Optimal Taxation
Reading: Chapter 20
Reading: Chapter 21
[24]. November 19: Taxation on Savings and Wealth
Reading: Chapters 22 and 23
[25]. November 24: Taxation on Business Income
Reading: Chapter 24

November 26: Happy Thanksgiving!!!

[26]. December 1: Ideas for Tax Reforms
Reading: Chapter 25
[27]. December 3: In-Class Review Session and Discussions.
Class Policies for Econ 231 (Fall 2020)

1. Attendance:
   Attendance of lectures is required. The Zoom session will take attendances automatically. If a student repeatedly fails to attend classes without proper excuses, the student will receive a lower grade. I understand that some of you may have to schedule a must-do interview and miss a class. Please let me know beforehand for permission.

2. Cooperation:
   You may discuss homework assignments with each other; however, each individual must submit a separate homework assignment (i.e. write neatly/type up your own answers, no copies), and each individual will be separately graded on the assignment. You may not cooperate while taking exams.

3. Aids During Exams:
   Exams are timed and will be open book/open notes. But you may NOT communicate or cooperate with anyone on the exam. You will be asked to sign an honor pledge before the exam.

4. Format of Assigned Work:
   All homework assignments must be legible to the professor/TA/grader. You will be asked to turn in the homework on Canvas. If your handwriting is not easy to read, I would urge you to type the solutions to make sure you are properly credited. All handwritten answers to exam questions should be legible. Spelling, grammar, style, etc. do not "count" per se. However, anything that the TA or I cannot read or understand is wrong. Poor spelling, grammar, style, etc are often confusing.

5. Lateness:
   Due and return dates for assignments will be announced in class. These dates are binding. Late assignments are not accepted without either proper arrangement and compelling, verifiable reason.

6. Return of Homeworks and Exams:
   Graded homeworks and exams will be returned to you on Canvas or by email.

7. Re-grade requests:
   A request for a re-grade of a problem set or an exam must be submitted to me in writing. In such a case, the TA will reevaluate your complete homework set or exam.

8. Exam Attendance Policy: I follow the economics department’s policy on exam attendance. Please see https://economics.sas.upenn.edu/undergraduate-program/course-information/guidelines/policies for details. The policy is copied below:
   “In cases where attendance at a midterm or a final exam is mandatory, there are only a few valid excuses for missing an exam. They are:
• Three exams scheduled within one calendar day (for final exams ONLY!) This policy of 3 exams does not count for midterm exams given during class time.
• An exam is given outside of the regular class schedule and the timing conflicts with another class in which the student is enrolled.
• Observance of a university-recognized religious holiday.
• UPENN Business that takes you away from campus. Absence from campus on UPENN business includes, for example, athletic events in which you are actively participating. In such cases, you need to make arrangements with your professor ahead of the exam date to take the exam at another time (preferably earlier than the schedule date).
• An illness/health emergency.
• A death in your family.
• Documented disabilities that allow you to take the exam under other circumstances.

Examples of reasons that are **not** valid for missing an exam are:

• job interviews;
• job internships;
• beginning fall or spring break early or returning after a scheduled exam;
• end of semester early flights;
• any other reason you would prefer not to be at the university when the exam is scheduled.

*Students are responsible for making sure, at the beginning of the term, that they can attend the exams. Registering for a course means that you certify that you will be present for the exam (unless one of the explicitly stated exceptions above arises.)*

If you are unexpectedly ill at the time of the exam and unable to reach the instructor ahead of time, then you can give notification of your illness as soon as you are able. Do not take an exam if you are ill and then expect to have an opportunity to retake the exam because you were ill the first time and did poorly.

Students who arrive late to an exam will generally be required to hand in their exam at the same time as other students.”

9. **Make-up Exams:**

There are no make-up written exams. However, if you have one of the valid excuses listed above for missing a midterm, your next midterm will be worth 50% of your grade if the one you missed is either the first or the second midterm. If your missed exam is the third midterm, then I will administer an oral exam to replace it.

10. **Documents** (including problem sets, practice exams, exams and their solutions), regardless of whether they are physically distributed during this course or are posted on Canvas site, are only for students enrolled in this course. Any re-posting online (or on any course material sharing website) is prohibited.